



## ***FINANCIAL STATEMENTS***

***For The Year Ended June 30, 2008***



**REHMANN ROBSON**

*Certified Public Accountants*

# CHELSEA SCHOOL DISTRICT

For the Year Ended June 30, 2008

## TABLE OF CONTENTS

---

	<u>PAGE</u>
Independent Auditors' Report .....	1-2
Management's Discussion and Analysis .....	3-11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities .....	13-14
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	15
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds .....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund .....	19
Statement of Fiduciary Net Assets .....	20
Statement of Changes in Fiduciary Net Assets .....	21
Notes to the Financial Statements.....	22-36
Combining Fund Financial Statements:	
Combining Balance Sheet – Nonmajor Governmental Funds.....	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds .....	38
Combining Statement of Fiduciary Net Assets – Private-Purpose Trust Funds .....	39
Combining Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust Funds .....	40
Appendix	
Single Audit	
Schedule of Expenditures of Federal Awards .....	41-43
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	44-45
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	46-47
Schedule of Findings and Questioned Costs .....	48-49



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



## INDEPENDENT AUDITORS' REPORT

October 16, 2008

Board of Education  
Chelsea School District  
Chelsea, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **CHELSEA SCHOOL DISTRICT**, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of **Chelsea School District's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of **Chelsea School District** as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2008, on our consideration of **Chelsea School District's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise **Chelsea School District's** basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of **Chelsea School District**. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of **Chelsea School District**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## Management's Discussion and Analysis

As management of Chelsea School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year beginning July 1, 2007 and ending June 30, 2008.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$21,570,257 (*net assets*). Of this amount, \$6,075,845 (*unrestricted net assets*) may be used to meet the government's ongoing obligations for district programs.
- The District's total net assets increased by \$2,967,595.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$13,447,124, a decrease of \$299,401 in comparison with the prior year. Approximately 47%, or \$6,298,428, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$6,301,828 or 25 percent of total general fund expenditures.
- Investments for the future were made by recognizing expenditures of approximately \$14,763,000 on school improvements, vehicles and equipment. Through the 2004 bond issue, debt was issued to finance these projects.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** - The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, athletics, debt service and capital outlay. The District has no business-type activities as of and for the year ended June 30, 2007.

The government-wide financial statements can be found on pages 12-14 of this report.

**Fund financial statements** - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds** - *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, 1998 debt service fund, 2004 bond and capital projects funds, each of which are considered to be a major fund. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general, special revenue and debt service funds. Budgetary comparison statements or schedules have been provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 15-19 of this report.

**Fiduciary funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 20-21 of this report.

**Notes to the financial statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-36 of this report.

**Other information** - The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining fund statements and schedules can be found on pages 37-40 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$21,570,257 at the close of the most recent fiscal year.

By far the largest portion of the District's net assets (55 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### District's Net Assets

	<b>Governmental Activities</b>	
	<b><u>2006-07</u></b>	<b><u>2007-08</u></b>
Current and other assets	\$ 20,277,630	\$ 17,140,437
Capital assets, net	<u>65,287,734</u>	<u>65,110,608</u>
Total assets	85,565,364	82,251,045
Long-term liabilities outstanding	57,269,996	53,763,204
Other liabilities	<u>9,692,706</u>	<u>6,917,584</u>
Total liabilities	66,962,702	60,680,788
Net assets:		
Invested in capital assets, net of related debt	9,574,209	11,807,463
Restricted	3,934,482	3,686,949
Unrestricted	<u>5,093,971</u>	<u>6,075,845</u>
<b>Total net assets</b>	<b><u>\$ 18,602,662</u></b>	<b><u>\$ 21,570,257</u></b>



An additional portion of the District's net assets (17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (28 percent or \$6,075,845) may be used to meet the government's ongoing obligations to its programs. The \$6.0 million in unrestricted net assets of the governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

At the end of the current fiscal year, the District was able to report positive balances in the two categories of net assets, both for the government as a whole, as well as for its separate governmental-type activities.

The results of this year's operation for the District as a whole are reported in the statement of activities, which shows the changes in net assets for the fiscal year 2008.

### District's Changes in Net Assets

	<b>Governmental Activities</b>	
	<b><u>2006-07</u></b>	<b><u>2007-08</u></b>
<b>Revenue:</b>		
Program revenue:		
Charges for services	\$ 1,486,037	\$ 1,556,335
Operating grants and contributions	5,316,420	5,294,769
Capital grants and contributions	25,950	25,950
General revenue:		
Property taxes	10,647,887	11,422,848
State school aid	16,352,368	15,672,635
Contributions not restricted to specific programs	170,363	134,553
Other	<u>846,844</u>	<u>473,058</u>
<b>Total revenue</b>	<b><u>34,845,869</u></b>	<b><u>34,580,148</u></b>
<b>Expenses:</b>		
Instruction	13,935,525	13,908,583
Support services	9,982,759	10,564,430
Food service	929,528	997,316
Athletics	703,627	695,723
Debt Service	-	-
Community Education	707,598	517,944
Capital Outlay	1,002,701	68,224
Depreciation – unallocated	1,622,838	2,305,507
Interest on long-term debt	<u>2,917,748</u>	<u>2,554,826</u>
<b>Total expenses</b>	<b><u>31,802,324</u></b>	<b><u>31,612,553</u></b>
<b>Increase in net assets</b>	<b>3,043,545</b>	<b>2,967,595</b>
Net assets, beginning of year	<u>15,559,117</u>	<u>18,602,662</u>
<b>Net assets, end of year</b>	<b><u>\$18,602,662</u></b>	<b><u>\$ 21,570,257</u></b>

## Governmental activities

Net assets increased by approximately \$2,970,000. The key elements of this increase are as follows:

- Principal and interest payments made on the outstanding debt of the District, including payments to the Michigan School Bond Loan Fund
- The curtailment of expenditures district-wide.
- Community-approved bond issue in June 2004 has shifted allowable operational expenses and capital outlay purchases to the bond fund from the general fund.

---

## Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds* - The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$13,447,124, a decrease of \$299,401 in comparison with the prior year. Approximately 47% of this total amount (\$6.3 million) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$6,301,828. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance to total fund expenditures. Unreserved fund balance represents approximately 25% of total general fund expenditures.

The fund balance of the District's general fund increased by \$927,533 during the current fiscal year. This is primarily attributable to additional state funding received related to prior years foundation allowance adjustments, decrease of expenditures related to the self-funded deductible of the health insurance program, savings in utility costs, savings in using contracted substitutes and unused department and building budgets for the 2007-08 year.

The 2004 bond service fund has a total fund balance of \$3,240,085. This fund was established in the 2004-05 school year and the ending balance represents the amount of projects to be completed within a five-year period. The fund balance related to this fund will decrease on an annual basis as projects are completed.

The capital projects fund has a total fund balance of \$1,920,480. This fund is maintained for the purpose of major repairs and renovations to District facilities.

The 1998 debt service fund ended the year with a \$-0- fund balance. The fund defeased \$29,935,000 of the 1998 building and site bonds with the remaining amount being paid off during the 2007-08 year.

### **General Fund Budgetary Highlights**

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted before the 2007-08 year end. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information in these financial statements.

Differences between the original and final amended budgets related to updates in salaries and benefits costs and student count for the District. Once this additional information was known, subsequent budget amendments recognized the additional revenue and additional planned expenditures and the individual various District program budgets were adjusted accordingly.

For the 2007-08 year, significant budget adjustments to the General fund included:

- Additional interest earnings and other local revenue
- Foundation allowance increase per student recognized
- State Aid Adjustments from prior years and adjustment of additional FTE above projections for the 2007-08 preliminary budget
- Special Education funding adjustments from the intermediate school district related to current and prior years
- Staffing and benefit changes related to staff leaves of absence and unused contracted services sub costs
- Recognition of unused self-funded health insurance deductibles for the 2006 and 2007 calendar years
- Utility adjustments as a result of adjustments made by the utility companies and implementing an energy management program in September 2007
- Unused building/department budget allocations

Other adjustments to the General Fund were made that combined were immaterial in amount to the overall amendment of the fund.

### **Capital Asset and Debt Administration**

**Capital assets** - The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$65,110,608 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. The net decrease in the District's investment in capital assets for the current fiscal year was .02 percent (all in governmental activities).

The major capital asset events during the current fiscal year were the following:

- Approximately \$14.7 million in equipment, vehicles, building and land improvements primarily funded through the 2004 bond fund.

**District's Capital Assets**  
(net of depreciation)

	<b><u>June 30,</u></b> <b><u>2007</u></b>	<b><u>June 30,</u></b> <b><u>2007</u></b>
Land	\$ 1,099,521	\$ 1,099,521
Construction in Progress	12,360,012	633,809
Land Improvements	3,202,227	2,990,339
Buildings and Improvements	44,351,870	56,077,067
Vehicles	1,600,676	1,346,052
Equipment	<u>2,673,428</u>	<u>2,963,820</u>
<b>Total</b>	<b><u>\$ 65,287,734</u></b>	<b><u>\$ 65,110,608</u></b>

Additional information on the District's capital assets can be found in note III.C on page 31 of this report.

**Long-term debt** - At the end of the current fiscal year, the District had total bonded debt outstanding of \$53,883,223. This amount represents both general obligations of the District that do constitute an indebtedness of the District within any constitutional or statutory limitations (1998, 2004, 2006 and 2008 debt issues), and those that are not general obligations of the District, and is payable solely from state aid payments from the State of Michigan (Durant bonds).

In addition, the District has additional bonded debt of \$1,429,100 through the Michigan School Bond Loan Fund. This debt is also a general obligation of the District.

The District's total debt decreased by \$5,443,503 (9.8 percent) during the current fiscal year which reflects the payments made on current outstanding debt along with the defeasance of the 1998 building and site bonds.

Additional information on the District's long-term debt can be found in note III.F on pages 33-34 of this report.

**Factors Bearing on the District's Future**

Our elected officials and administration consider many factors when setting the District's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year will be 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2009 fiscal year budget was adopted in June 2008, based on an estimate of students that will be funded for the 2008-09 year (a blended figure is used based on the percentages above). Approximately 86% of all revenues received by the District are directly related to the foundation allowance (67% from the state and 19% from non-homestead local property taxes). Under State law, the School District cannot access additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-09 school year, we anticipate that the fall student count loss that was projected in the preliminary budget will be close to the estimates used in creating the 2008 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the District to amend the budget if actual District resources are not sufficient to fund original appropriations.

The following factors were also considered in preparing the District's budget for the 2008-09 fiscal year:

- Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. The last conference was held in the spring of 2008 and, as of June 30, 2008, the State had not settled on a budget for the 2008-09 State fiscal year and however an increase of \$100.00 was included in the preliminary budget based on Senate and House financial packages that were proposed. Since that time the amount allocated to the District was determined to be at \$103.00 per FTE, which will be adjusted through the first amendment of the budget for the 2008-09 school year.
- The amount received on a county-wide basis for the costs of the special education program is another major factor influencing the District revenues. The 2008-09 preliminary budget assumes that the same percentage of funding will be used to reimburse special education costs at the county level as in the 2007-08 year (82%).
- The District is absorbing a 18% increase in health costs and 2% in other benefits increase. Insurance increases are uncontrollable factors of the District's budget and are estimated based on either known rates or previous year's experience. These increases in expenditures have been reflected within the 2008-09 preliminary budget and will be amended as updated information becomes available.
- The State retirement rate that the District is required to fund is .18% less than the 2007-08 rate that was paid. Given the current market conditions we anticipate that in future years this rate will continue to climb.
- We do anticipate utility rates to increase in the 2008-09 year and have reflected an increase in heating costs of 20% increase over 2007-08 utility costs. We have also budgeted an increase in other utilities of 5%. The District implemented a new energy management system in September 2007 and we anticipate that the dollar savings will help to offset future energy costs.
- The budget adopted for 2008-09 also reflects an increase to accommodate \$4.25 and \$5.25 cost per gallon of unleaded and diesel fuel respectively, used by our bus and vehicle fleet.
- The District is continuing to provide additional classroom dollars by maintaining expenditures for busses, a major portion of technology and other furniture and equipment within the 2004 bond fund. Accordingly, as in previous years these expenditures are not reflected in the 2008-09 general fund operating budget.
- For the 2008-09 all labor contracts were settled prior to adopting the 2008-09 budget. However, staff increases are based on a formula directly tied to the Fall 2008 student count, therefore actual salary costs may be amended during the 2008-09 as the student count numbers become available. For the preliminary 2008-09 salary costs, the base percentage increase to be given in the salary formula along with the step increases have been included in expenditures budgeted for all funds.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Office, 500 Washington Street, Chelsea, Michigan 48118.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS



# CHELSEA SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2008

	<b><u>Governmental Activities</u></b>
Assets	
Current Assets:	
Cash and cash equivalents	\$ 5,147,157
Investments	7,302,035
Accounts receivable	1,058,565
Due from other governmental units	3,411,018
Prepays	196,583
Inventories	25,079
Total current assets	<u>17,140,437</u>
Non-current assets:	
Capital assets not being depreciated	1,733,330
Capital assets being depreciated	<u>63,377,278</u>
Total non-current assets	<u>65,110,608</u>
Total assets	<u>82,251,045</u>
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	2,055,696
Salaries payable	1,709,697
Unearned revenue	184,336
Due to student groups	34,606
Current portion of long-term obligations	<u>2,933,249</u>
Total current liabilities	<u>6,917,584</u>
Non-current liabilities	
Noncurrent portion of long-term obligations	<u>53,763,204</u>
Total noncurrent liabilities	<u>53,763,204</u>
Total liabilities	<u>60,680,788</u>
Net assets	
Invested in capital assets, net of related debt	11,807,463
Restricted for:	
Debt Service	1,766,469
Capital Projects	1,920,480
Unrestricted	<u>6,075,845</u>
Total net assets	<u>\$ 21,570,257</u>

The accompanying notes are an integral part of these financial statements.

**CHELSEA SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Governmental Activities:					
Instruction:					
Basic programs	\$ 11,457,744	\$ -	\$ 380,066	\$ 25,950	\$ (11,051,728)
Added needs:					
Special Education	2,088,365	-	2,082,817	-	(5,548)
Other added needs	362,474	-	105,120	-	(257,354)
Total instruction	13,908,583	-	2,568,003	25,950	(11,314,630)
Support services:					
Pupil	2,399,742	14,166	2,392,038	-	6,462
Instructional services	835,308	-	-	-	(835,308)
General Administration	388,752	-	-	-	(388,752)
School Administration	1,382,025	-	-	-	(1,382,025)
Business	570,863	-	-	-	(570,863)
Maintenance	2,913,066	-	-	-	(2,913,066)
Transportation	1,505,610	67,337	-	-	(1,438,273)
Pupil Accounting	2,216	-	-	-	(2,216)
Technology	498,424	-	4,706	-	(493,718)
Community services	51,510	-	-	-	(51,510)
Other support services	16,914	-	-	-	(16,914)
Total supporting services	10,564,430	81,503	2,396,744	-	(8,086,183)
Food Service	997,316	811,346	173,205	-	(12,765)
Athletics	695,723	185,789	-	-	(509,934)
Community Education	517,944	477,697	156,817	-	116,570
Capital Outlay/maintenance	68,224	-	-	-	(68,224)
Depreciation - unallocated	2,305,507	-	-	-	(2,305,507)
Interest on long-term debt	2,554,826	-	-	-	(2,554,826)
Total Governmental Activities	\$ 31,612,553	\$ 1,556,335	\$ 5,294,769	\$ 25,950	\$ (24,735,499)

The accompanying notes are an integral part of these financial statements.

**CHELSEA SCHOOL DISTRICT**  
**Statement of Activities (concluded)**  
**For the Year Ended June 30, 2008**

	<b>Governmental Activities</b>
<b>Changes in net assets</b>	
Net expense	<u>\$ (24,735,499)</u>
General revenues:	
Property taxes	11,422,848
State school aid	15,672,635
Grants and contributions not restricted to specific programs	134,553
Unrestricted investment earnings	<u>473,058</u>
Total general revenues	<u>27,703,094</u>
Change in net assets	2,967,595
Net assets, beginning of year	<u>18,602,662</u>
<b>Net assets, end of year</b>	<u><u>\$ 21,570,257</u></u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

# CHELSEA SCHOOL DISTRICT

## Balance Sheet Governmental Funds June 30, 2008

	General Fund	1998 Debt Fund	2004 Bond Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 1,138,672	\$ -	\$ -	\$ 2,100,604	\$ 1,907,881	\$ 5,147,157
Investments	3,973,515	-	3,328,520	-	-	7,302,035
Accounts receivable	1,003,622	-	-	-	9,949	1,013,571
Taxes receivable	29,743	-	-	1,758	13,493	44,994
Due from other governmental units	3,115,333	-	-	-	295,685	3,411,018
Prepaid expenditures	196,583	-	-	-	-	196,583
Inventory	-	-	-	-	25,079	25,079
Due from other funds	152,987	-	-	23	7,837	160,847
<b><u>TOTAL ASSETS</u></b>	<b>\$ 9,610,455</b>	<b>\$ -</b>	<b>\$ 3,328,520</b>	<b>\$ 2,102,385</b>	<b>\$ 2,259,924</b>	<b>\$ 17,301,284</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>						
<b>Liabilities</b>						
Accounts payable	\$ 273,087	\$ -	\$ 88,435	\$ 178,704	\$ 1,849	\$ 542,075
Salaries payable	1,691,618	-	-	-	18,079	1,709,697
Accrued expenses	1,069,376	-	-	-	-	1,069,376
Deferred revenue	70,126	-	-	1,758	265,675	337,559
Due to student groups	-	-	-	-	34,606	34,606
Due to other funds	7,837	-	-	1,443	151,567	160,847
<b><u>TOTAL LIABILITIES</u></b>	<b>3,112,044</b>	<b>-</b>	<b>88,435</b>	<b>181,905</b>	<b>471,776</b>	<b>3,854,160</b>
<b>Fund Balance</b>						
Reserved for inventory	-	-	-	-	25,079	25,079
Reserved for prepaid expenditures	196,583	-	-	-	-	196,583
Reserved for health insurance	-	-	-	-	-	-
Unreserved	6,301,828	-	-	-	-	6,301,828
Unreserved, undesignated, reported in:						
Debt service funds	-	-	-	-	1,766,469	1,766,469
Capital projects funds	-	-	3,240,085	1,920,480	-	5,160,565
Special revenue funds (deficit)	-	-	-	-	(3,400)	(3,400)
Total Fund Balances	6,498,411	-	3,240,085	1,920,480	1,788,148	13,447,124
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b>\$ 9,610,455</b>	<b>\$ -</b>	<b>\$ 3,328,520</b>	<b>\$ 2,102,385</b>	<b>\$ 2,259,924</b>	<b>\$ 17,301,284</b>

The accompanying notes are an integral part of these financial statements.

**CHELSEA SCHOOL DISTRICT**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2008**

Fund balances - total governmental funds	\$ 13,447,124
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add - capital assets	91,929,815
Deduct - accumulated depreciation	(26,819,207)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add - deferred long-term Durant Settlement receivable	153,223
Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Deduct - bonds payable	(55,312,323)
Deduct - premium on bond issuance, net of amortization	(2,374,656)
Deduct - accrued interest on bonds payable	(444,245)
Add - deferred cost on bond refunding	990,526
Net assets of governmental activities	<u><u>\$ 21,570,257</u></u>

The accompanying notes are an integral part of these financial statements.

**CHELSEA SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	General Fund	1998 Debt Fund	2004 Bond Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Local Sources:						
Property Taxes	\$ 4,493,738	\$ 3,563,633	\$ -	\$ 808,554	\$ 2,556,924	\$ 11,422,849
Other Local Sources	355,481	34,880	165,263	87,753	1,506,404	2,149,781
State Sources	17,608,199	-	-	-	138,530	17,746,729
Federal Sources	706,777	-	-	-	161,425	868,202
Other Sources	2,362,523	-	-	-	30,067	2,392,590
<b>Total Revenues</b>	<b>25,526,718</b>	<b>3,598,513</b>	<b>165,263</b>	<b>896,307</b>	<b>4,393,350</b>	<b>34,580,151</b>
<b>Expenditures</b>						
Instruction:						
Basic programs	11,457,747	-	-	-	-	11,457,747
Added Needs:						
Special Education	2,088,365	-	-	-	-	2,088,365
Other Added Needs	362,474	-	-	-	-	362,474
Total instruction	13,908,586	-	-	-	-	13,908,586
Support services:						
Pupil	2,399,742	-	-	-	-	2,399,742
Instructional services	835,308	-	-	-	-	835,308
General administration	388,752	-	-	-	-	388,752
School administration	1,382,025	-	-	-	-	1,382,025
Business	570,863	-	-	-	-	570,863
Maintenance	2,889,702	-	-	-	-	2,889,702
Transportation	1,288,851	-	-	-	-	1,288,851
Pupil Accounting	2,216	-	-	-	-	2,216
Technology	498,424	-	-	-	-	498,424
Community services	51,510	-	-	-	-	51,510
Other support services	16,914	-	-	-	-	16,914
Total support services	10,324,307	-	-	-	-	10,324,307
Food Service	-	-	-	-	997,317	997,317
Athletics	-	-	-	-	695,723	695,723
Debt Service						
Principal	-	1,840,000	-	-	950,000	2,790,000
Interest	-	834,190	-	-	1,481,945	2,316,135
Other	-	30,791,361	-	-	16,160	30,807,521
Community Education	-	-	-	-	517,944	517,944
Capital Outlay	-	-	1,118,426	1,331,902	-	2,450,328
Total expenditures	24,232,893	33,465,551	1,118,426	1,331,902	4,659,089	64,807,861
Revenues over (under) expenditures	1,293,825	(29,867,038)	(953,163)	(435,595)	(265,739)	(30,227,710)
<b>Other financing sources (uses)</b>						
Proceeds from sale of capital assets	13,600		-	-	-	13,600
Proceeds from the sale of bonds		28,590,000				
Premium from the sale of bonds		1,724,709				
Payments to Michigan School Bond Loan Fund						
Principal	-		-	-	(308,503)	(308,503)
Interest	-		-	-	(91,497)	(91,497)
Transfers in	196,331	-	-	-	1,945,557	2,141,888
Transfers out	(576,223)	(1,369,334)	-	-	(196,331)	(2,141,888)
	(366,292)	28,945,375	-	-	1,349,226	(386,400)
Net change in fund balances	927,533	(921,663)	(953,163)	(435,595)	1,083,487	(299,401)
Fund balance, beginning of year	5,570,878	921,663	4,193,248	2,356,075	704,661	13,746,525
Fund balance, end of year	\$ 6,498,411	\$ -	\$ 3,240,085	\$ 1,920,480	\$ 1,788,148	\$ 13,447,124

The accompanying notes are an integral part of these financial statements.

**CHELSEA SCHOOL DISTRICT**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balance of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2008**

Net change in fund balances - total governmental funds \$ (299,401)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	2,403,227
Deduct - depreciation expense	(2,560,124)
Deduct - Loss on sale of capital assets	(6,629)
Deduct - Proceeds from sale of capital assets	(13,600)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term liabilities	3,098,503
Less - proceeds from sale of bonds	(28,590,000)
Add - payment to refunding bond escrow agent	30,467,034
Less - premium paid on the refinancing of debt	(1,724,709)
Add - amortization of bond premium	139,685
Deduct - amortization of deferred bond cost	(26,970)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	80,579
---	--------

Change in net assets of governmental activities	\$ 2,967,595
---	--------------

The accompanying notes are an integral part of these financial statements.



**CHELSEA SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2008**

	<b>Budget Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Local Sources:				
Property Taxes	\$ 4,639,263	\$ 4,521,844	\$ 4,493,738	\$ (28,106)
Other Local Sources	272,407	349,729	369,081	19,352
State Sources	16,683,999	17,602,454	17,608,199	5,745
Federal Sources	685,739	760,209	706,777	(53,432)
Other Sources	2,541,043	2,420,093	2,362,523	(57,570)
<b>Total Revenues</b>	<b>24,822,451</b>	<b>25,654,329</b>	<b>25,540,318</b>	<b>(114,011)</b>
<b>Expenditures</b>				
Instruction:				
Basic programs	11,607,733	11,647,075	11,457,747	(189,328)
Added Needs:				
Special Education	2,110,013	2,130,569	2,088,365	(42,204)
Other Added Needs	198,305	373,630	362,474	(11,156)
Total instruction	13,916,051	14,151,274	13,908,586	(242,688)
Support services:				
Pupil	2,538,226	2,391,228	2,399,742	8,514
Instructional services	927,759	889,887	835,308	(54,579)
General administration	462,823	407,282	388,752	(18,530)
School administration	1,443,234	1,394,371	1,382,025	(12,346)
Business	446,945	416,228	570,863	154,635
Maintenance	3,022,164	2,927,786	2,889,702	(38,084)
Transportation	1,225,801	1,278,365	1,288,851	10,486
Pupil Accounting	2,750	2,750	2,216	(534)
Technology	516,825	522,611	498,424	(24,187)
Community services	52,329	51,792	51,510	(282)
Other support services	30,000	17,500	16,914	(586)
Total support services	10,668,856	10,299,800	10,324,307	24,507
Total expenditures	24,584,907	24,451,074	24,232,893	(218,181)
Revenues over expenditures	237,544	1,203,255	1,307,425	104,170
<b>Other financing sources (uses)</b>				
Transfers in	180,953	186,382	196,331	9,949
Transfers out	(761,991)	(616,457)	(576,223)	40,234
	(581,038)	(430,075)	(379,892)	50,183
Net change in fund balance	(343,494)	773,180	927,533	154,353
Fund balance, beginning of year	5,204,490	5,570,878	5,570,878	-
Fund balance, end of year	\$ 4,860,996	\$ 6,344,058	\$ 6,498,411	\$ 154,353

The accompanying notes are an integral part of these financial statements.

**CHELSEA SCHOOL DISTRICT**  
**Statement of Fiduciary Net Assets**  
**June 30, 2008**

	<b>Private Purpose Trusts</b>	<b>Agency Fund</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 82,650	\$ 268,443
Investments	47,881	15,923
Accounts Receivable	-	-
Total assets	<u>130,531</u>	<u>\$ 284,366</u>
<b>Liabilities</b>		
Due to student groups	<u>-</u>	<u>\$ 284,366</u>
<b>Net Assets</b>		
Reserved for scholarships	<u>\$ 130,531</u>	

The accompanying notes are an integral part of these financial statements.

**CHELSEA SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Assets**  
**For the Year Ended June 30, 2008**

	<u>Private Purpose Trusts</u>
<b>Additions</b>	
Private Donations	\$ 210,776
Interest	7,464
Total additions	<u>218,240</u>
<b>Deductions</b>	
Scholarships	27,268
Mileage	125
Supplies	623,293
Total deductions	<u>650,686</u>
<b>Change in net assets</b>	(432,446)
Net assets, beginning of year	<u>562,977</u>
<b>Net assets, end of year</b>	<u><u>\$ 130,531</u></u>

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Chelsea School District (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for the agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *1998 debt service fund* account for incoming tax proceeds and outgoing principal and interest payments on the related bond issues. These funds will operate until the purpose for which they were created is accomplished.

The *2004 bond fund* accounts for the bond proceeds related to the sale of bonds as approved by the community in June 2004 and the corresponding expenditures related to the bond projects.

The *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects, which are primarily funded by tax collections from a sinking fund millage.

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

Additionally, the District reports the following fund types:

The *food service fund* accounts for the activities of the food service operation at the various cafeteria locations. The District charges users primarily for the direct costs of this program, which is subsidized by state and federal grants.

The *athletic fund* accounts for the activities of the athletic operations of the District. The District charges users primarily for attending events, and is subsidized by the general fund.

The *community education fund* accounts for the activities of the community education programs run in the District. The District charges tuition for classes attended, and at year end excess revenues revert back to the general fund. In addition, excess expenditures are subsidized by the general fund.

The *2004, 2006 and 2008 and 1998 Durant debt service funds* account for incoming tax proceeds and outgoing principal and interest payments on the related bond issues. These funds will operate until the purpose for which they were created is accomplished.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

The *private purpose trust funds* account for contributions earmarked for scholarships available to qualifying students of the District.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

### **D. Assets, liabilities and equity**

#### **1. Deposits and investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

#### **2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Property tax and other receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31, and the related property taxes are levied and become a lien on July 1 for 100 percent of the taxes that are due September 14. The fund collection date is February 28, after which they are added to the county delinquent tax rolls.

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

#### **3. Inventory**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the Food Service Fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. United States Department of Agriculture commodities inventory received is recorded as inventory and deferred revenue until used. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

#### **4. Capital assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.



# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	7-25
Vehicles	8
Equipment	5-20

### 5. *Compensated absences*

Long-term sick and vacation benefits do not accrue or vest and therefore are not recorded as a liability of the District.

### 6. *Long-term obligations*

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types generally recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### 7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

### II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

#### A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general, debt and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

#### B. Excess of expenditures over appropriations

During the year ended June 30, 2008, the District incurred expenditures in excess of the amount appropriated as follows:

<b>General Fund</b>	<b><u>Final Budget</u></b>	<b><u>Actual</u></b>	<b><u>Variance</u></b>
Support Services:			
Pupil	\$ 2,391,228	\$ 2,399,742	\$ 8,514
Business	416,228	570,863	154,635
Transportation	1,278,365	1,288,851	10,486

These over-expenditures related to the additional cost of occupational and physical therapy services for students, the settlement of the Enbridge Pipeline MTT, and the cost of fuel and excess driver wages due to additional spring trips.

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

**Statement of Net Assets:**

Cash and cash equivalents	\$ 5,147,157
Investments	<u>7,302,035</u>
	<u><b>12,449,192</b></u>

**Statement of Fiduciary Net Assets:**

Private Purpose Trust Fund:	
Cash and cash equivalents	82,650
Investments	47,881

Agency Funds:

Cash and cash equivalents	268,443
Investments	<u>15,923</u>

**\$ 12,864,089**

Bank deposits (checking accounts, savings accounts and CDs)	\$ 9,483,827
Investments in governmental liquid asset funds	3,376,401
Cash on hand	<u>3,861</u>

**\$ 12,864,089**

#### Statutory Authority

State statutes authorize the District to invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

### Investments

The District chooses to disclose its investments by specific identification. As of year end, the District had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	n/a	\$ 47,882	S&P – AAAm
Fifth Third Money Market Fund	n/a	<u>3,328,519</u>	Not rated
		<u><b>\$ 3,376,401</b></u>	

### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$9,591,912 of the District's bank balance of \$9,791,912 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require a policy for investment custodial credit risk. The District's investment policy limits investments to those types of securities allowed by state statutes above and by pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District does business in accordance with this policy. Investments which are uncategorized as to risk total \$3,328,519 or 46% of total investments.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

### **B. Receivables**

Receivables are 73% due from the State of Michigan, 1% taxes receivable, and 26% other receivables. \$153,223 of the due from other governmental units amount is not expected to be collected within one year.

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

### C. Capital assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Deductions	Balance June 30, 2008
<b>Capital assets not being depreciated:</b>				
Land	\$ 1,099,521	\$ -	\$ -	\$ 1,099,521
Construction in Progress	12,360,012	633,809	(12,360,012)	633,809
<b>Subtotal</b>	<b>13,459,533</b>	<b>633,809</b>	<b>(12,360,012)</b>	<b>1,733,330</b>
<b>Capital assets being depreciated:</b>				
Land improvements	5,152,304	21,350	-	5,173,654
Buildings and improvements	59,543,202	13,311,737	-	72,854,939
Vehicles	2,950,287	21,123	(202,294)	2,769,116
Equipment	8,623,556	775,220	-	9,398,776
<b>Subtotal</b>	<b>76,269,349</b>	<b>14,129,430</b>	<b>(202,294)</b>	<b>90,196,485</b>
<b>Accumulated depreciation</b>				
Land improvements	(1,950,077)	(233,238)	-	(2,183,315)
Buildings and improvements	(15,191,332)	(1,586,540)	-	(16,777,872)
Vehicles	(1,349,611)	(255,518)	182,065	(1,423,064)
Equipment	(5,950,128)	(484,828)	-	(6,434,956)
<b>Total accumulated depreciation</b>	<b>(24,441,148)</b>	<b>(2,560,124)</b>	<b>182,065</b>	<b>(26,819,207)</b>
<b>Total capital assets being depreciated - net</b>	<b>51,828,201</b>	<b>11,569,306</b>	<b>(20,229)</b>	<b>63,377,278</b>
<b>Governmental activities capital assets - net</b>	<b>\$ 65,287,734</b>	<b>\$ 12,203,115</b>	<b>\$ (12,380,241)</b>	<b>\$ 65,110,608</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

#### Governmental activities:

Support services:	
Operations and maintenance	\$ 23,364
Transportation	237,882
Depreciation - unallocated	<u>2,298,878</u>

**Total depreciation expense – governmental activities** **\$ 2,560,124**

In the Statement of Activities, there is \$6,629 of loss from the disposition of capital assets included in “Depreciation – unallocated.”

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

---

### D. Payables

Payables and accrued expenses are 52 percent vendors and 48 percent employer health insurance contributions.

### E. Interfund receivables, payables and transfers

At June 30, 2008, interfund receivables and payables consisted of the following:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 152,987	\$ 7,837
Capital Projects Fund	23	1,443
Nonmajor governmental funds	<u>7,837</u>	<u>151,567</u>
	<u><b>\$ 160,847</b></u>	<u><b>\$ 160,847</b></u>

For the year ending June 30, 2008, interfund transfers consisted of the following:

	<u>Transfers out</u>	<u>Transfers in</u>
General Fund	\$ 576,223	\$ 196,331
1998 Debt Fund	1,369,334	-
Nonmajor governmental funds	<u>196,331</u>	<u>1,945,557</u>
	<u><b>\$ 2,141,888</b></u>	<u><b>\$ 2,141,888</b></u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2008, the District transferred funds to subsidize the athletics and community education program and received funds from its food service operation and community education program. Additional amounts were posted through transfer accounts due to the closing of the 1998 Debt Fund and property tax receipt allocation.

# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

### F. Long-Term Debt

The District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District.

General obligation bonds payable at June 30, 2008, consists of the following:

\$20,640,000 serial and term bonds due in annual installments of \$650,000 to \$1,650,000 through May 1, 2021 interest at 2.00% to 5.25%	\$ 18,240,000
\$7,000,000 serial and term bonds due in annual installments of \$50,000 to \$1,770,000 through May 1, 2025, interest at 3.5% to 4.1%	6,900,000
\$28,590,000 serial and term bonds due in annual installments of \$1,795,000 to \$1,535,000 through May 1, 2025, interest at 5.00%	28,590,000
\$259,498 1998 Durant School Improvement Bonds due in annual installments of \$11,442 to \$61,995 through May 15, 2013, interest at 4.76%	<u>153,223</u>
<b>Total general obligation bonds</b>	<b><u>\$ 53,883,223</u></b>

\* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Annual debt service requirements to maturity for general obligation bonds are as follows:

<b>Year Ended June 30,</b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2009	\$ 2,933,249	\$ 2,583,333	\$ 5,516,582
2010	2,950,129	2,428,114	5,378,243
2011	3,020,849	2,297,768	5,318,617
2012	3,056,603	2,159,139	5,215,742
2013	3,092,393	2,019,098	5,111,491
2014-2018	15,800,000	7,879,150	23,679,150
2019-2021	16,425,000	3,822,845	20,247,845
2022-2025	<u>6,605,000</u>	<u>446,240</u>	<u>7,051,240</u>
<b>Totals</b>	<b><u>\$ 53,883,223</u></b>	<b><u>\$ 23,635,687</u></b>	<b><u>\$ 77,518,910</u></b>



# CHELSEA SCHOOL DISTRICT

## Notes to the Financial Statements

Other long-term debt is related to amounts due to the School Bond Loan Fund. Debt service requirements are determined by the District based on the amount of taxes received in excess of amounts needed to retire the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2008, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Beginning balance	\$ 1,737,603	\$ 70,694	\$ 1,808,297
Additions	-	79,920	79,920
Reductions	<u>(308,503)</u>	<u>(91,497)</u>	<u>(400,000)</u>
<b>Ending Balance</b>	<b><u>\$ 1,429,100</u></b>	<b><u>\$ 59,117</u></b>	<b><u>\$ 1,488,217</u></b>

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
General					
Obligation					
Bonds	\$ 58,018,223	\$ 28,590,000	\$ 32,725,000	\$ 53,883,223	\$ 2,933,249
Unamortized					
Premiums	789,632	1,724,709	139,685	2,374,656	-
Deferred					
amounts	(485,462)	(532,034)	(26,970)	(990,526)	-
School Bond					
Loan Fund	<u>1,737,603</u>	<u>-</u>	<u>308,503</u>	<u>1,429,100</u>	<u>-</u>
	<b><u>\$ 60,059,996</u></b>	<b><u>\$ 29,782,675</u></b>	<b><u>\$ 33,146,218</u></b>	<b><u>\$ 56,696,453</u></b>	<b><u>\$ 2,933,249</u></b>

### *Advance Refunding*

In the current year, the District defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net assets.

On February 7, 2008, the District defeased \$29,935,000 of its 1998 Building and Site bonds. The balance of defeased bonds outstanding as of June 30, 2007 was \$29,935,000, which represents amounts placed in escrow.

The current year refunding was undertaken to reduce total debt service expenditures over the next 20 years by \$1,860,553 and resulted in an economic gain of \$1,398,750.

# **CHELSEA SCHOOL DISTRICT**

## **Notes to the Financial Statements**

---

### **IV. OTHER INFORMATION**

#### **A. Risk management**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has participated in the MASB/SET-SEG (risk pool) for commercial insurance for general liability, property and casualty claims and workers compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

#### **B. Property taxes**

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by the City of Chelsea, Dexter Township, Freedom Township, Lima Township, Lyndon Township, Sharon Township, Sylvan Township, Grass Lake Township and Waterloo Township, whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Fund of Washtenaw and Jackson Counties.

#### **C. Defined benefit pension plan**

##### **Plan Description**

The Chelsea School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

##### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Chelsea School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

# **CHELSEA SCHOOL DISTRICT**

## **Notes to the Financial Statements**

---

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the Chelsea School District are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPERS for the years ended June 30, 2008, 2007 and 2006 were \$ 2,679,255, \$2,814,391 and \$2,656,403 respectively, equal to the required contributions for each year.

### **Other Postemployment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension. Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

### **D. Bonded construction costs and Sinking fund costs**

The 2004 Bond Fund includes capital project activities funded with bonds issued after May 1, 1994. For the capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code, and the applicable sections of the revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan. Also, the Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

### **E. Commitment**

The District has commitments related to a building project amounting to approximately \$1,300,000 as of June 30, 2008. This amount will be paid from the Capital Projects sinking fund.

\* \* \* \* \*

# COMBINING AND INDIVIDUAL FUND STATEMENTS

**CHELSEA SCHOOL DISTRICT**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

	Special Revenue			Debt				Total Nonmajor Governmental Funds
	Food Service	Athletics	Community Education	1998 Durant	2004	2006	2008	
<b>Assets</b>								
Cash and cash equivalents	\$ 110,462	\$ 1,732	\$ 350	\$ -	\$ 602,704	\$ 227,651	\$ 964,982	\$ 1,907,881
Accounts receivable	9,697	-	252	-	-	-	-	9,949
Taxes receivable	-	-	-	-	4,144	1,292	8,057	13,493
Inventory	25,079	-	-	-	-	-	-	25,079
Due from other funds	-	7,837	-	-	-	-	-	7,837
Due from other governmental units	4,981	-	137,481	153,223	-	-	-	295,685
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 150,219</u></b>	<b><u>\$ 9,569</u></b>	<b><u>\$ 138,083</u></b>	<b><u>\$ 153,223</u></b>	<b><u>\$ 606,848</u></b>	<b><u>\$ 228,943</u></b>	<b><u>\$ 973,039</u></b>	<b><u>\$ 2,259,924</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>								
<b>Liabilities</b>								
Accounts payable	\$ 393	\$ 129	\$ 1,327	\$ -	\$ -	\$ -	\$ -	\$ 1,849
Salaries payable	5,147	1,083	11,849	-	-	-	-	18,079
Deferred revenue	31,377	3,016	64,566	153,223	4,144	1,292	8,057	265,675
Due to student groups	-	5,341	29,265	-	-	-	-	34,606
Due to other funds	91,623	-	31,076	-	8,865	2,766	17,237	151,567
<b><u>TOTAL LIABILITIES</u></b>	<b><u>128,540</u></b>	<b><u>9,569</u></b>	<b><u>138,083</u></b>	<b><u>153,223</u></b>	<b><u>13,009</u></b>	<b><u>4,058</u></b>	<b><u>25,294</u></b>	<b><u>471,776</u></b>
<b>Fund Balance</b>								
Reserved for inventories	25,079	-	-	-	-	-	-	25,079
Unreserved and undesignated, Reported in:								-
Debt service funds	-	-	-	-	593,839	224,885	947,745	1,766,469
Special revenue funds (deficit)	(3,400)	-	-	-	-	-	-	(3,400)
Total fund balances	21,679	-	-	-	593,839	224,885	947,745	1,788,148
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 150,219</u></b>	<b><u>\$ 9,569</u></b>	<b><u>\$ 138,083</u></b>	<b><u>\$ 153,223</u></b>	<b><u>\$ 606,848</u></b>	<b><u>\$ 228,943</u></b>	<b><u>\$ 973,039</u></b>	<b><u>\$ 2,259,924</u></b>

**CHELSEA SCHOOL DISTRICT**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2008**

	Special Revenue			Debt				Total Nonmajor Governmental Funds
	Food Service	Athletics	Community Education	1998 Durant	2004	2006	2008	
<b>Revenues</b>								
Local Sources								
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,880,345	\$ 585,651	\$ 90,928	\$ 2,556,924
Other local sources	811,346	185,789	477,697	-	21,397	7,643	2,532	1,506,404
State Sources	26,823	-	111,707	-	-	-	-	138,530
Intermediate Sources	-	-	30,067	-	-	-	-	30,067
Federal Sources	146,382	-	15,043	-	-	-	-	161,425
<b>Total Revenues</b>	<b>984,551</b>	<b>185,789</b>	<b>634,514</b>	<b>-</b>	<b>1,901,742</b>	<b>593,294</b>	<b>93,460</b>	<b>4,393,350</b>
<b>Expenditures</b>								
Food services	997,317	-	-	-	-	-	-	997,317
Athletics	-	695,723	-	-	-	-	-	695,723
Debt service	-	-	-	-	1,803,018	530,038	515,049	2,848,105
Community education	-	-	517,944	-	-	-	-	517,944
<b>Total Expenditures</b>	<b>997,317</b>	<b>695,723</b>	<b>517,944</b>	<b>-</b>	<b>1,803,018</b>	<b>530,038</b>	<b>515,049</b>	<b>5,059,089</b>
Revenues over (under) expenditures	(12,766)	(509,934)	116,570	-	98,724	63,256	(421,589)	(665,739)
<b>Other financing sources (uses)</b>								
Transfers in	-	509,934	66,289	-	-	-	1,369,334	1,945,557
Transfers out	(13,472)	-	(182,859)	-	-	-	-	(196,331)
	(13,472)	509,934	(116,570)	-	-	-	1,369,334	1,749,226
Net change in fund balances	(26,238)	-	-	-	98,724	63,256	947,745	1,083,487
Fund balance, beginning of year	47,917	-	-	-	495,115	161,629	-	704,661
Fund balance, end of year	\$ 21,679	\$ -	\$ -	\$ -	\$ 593,839	\$ 224,885	\$ 947,745	\$ 1,788,148

**CHELSEA SCHOOL DISTRICT**  
**Combining Statement of Fiduciary Net Assets**  
**Private-Purpose Trust Funds**  
**June 30, 2008**

	<b>Steven Lewis Scholarship</b>	<b>Memorial Fund</b>	<b>Peabody Scholarship</b>	<b>Special Olympics Scholarship</b>	<b>Athletic Turf Fund</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 36,591	\$ 1,698	\$ 38,225	\$ 5,025	\$ 1,111	\$ 82,650
Investments	-	47,881	-	-	-	47,881
Total assets	\$ 36,591	\$ 49,579	\$ 38,225	\$ 5,025	\$ 1,111	\$ 130,531
<b>Net Assets</b>						
Reserved for scholarships	\$ 36,591	\$ 49,579	\$ 38,225	\$ 5,025	\$ 1,111	\$ 130,531

**CHELSEA SCHOOL DISTRICT**  
**Combining Statement of Changes in Fiduciary Net Assets**  
**Private-Purpose Trust Funds**  
**For the Year Ended June 30, 2008**

	<b>Steven Lewis Scholarship</b>	<b>Memorial Fund</b>	<b>Peabody Scholarship</b>	<b>Special Olympics Scholarship</b>	<b>Athletic Turf Fund</b>	<b>Total</b>
<b>Additions</b>						
Interest	\$ 1,173	\$ 1,866	\$ 765	\$ 19	\$ 3,641	\$ 7,464
Private Donations	500	-	17,592	12,684	180,000	210,776
Total additions	1,673	1,866	18,357	12,703	183,641	218,240
<b>Deductions</b>						
Supplies	-	-	-	4,158	619,135	623,293
Mileage	-	-	-	125	-	125
Scholarships	1,450	2,000	14,478	9,340	-	27,268
Total deductions	1,450	2,000	14,478	13,623	619,135	650,686
<b>Change in net assets</b>	223	(134)	3,879	(920)	(435,494)	(432,446)
Net assets, beginning of year	36,368	49,713	34,346	5,945	436,605	562,977
<b>Net assets, end of year</b>	<u>\$ 36,591</u>	<u>\$ 49,579</u>	<u>\$ 38,225</u>	<u>\$ 5,025</u>	<u>\$ 1,111</u>	<u>\$ 130,531</u>



## APPENDIX

**Chelsea School District**  
**Schedule of Expenditures of Federal Awards**  
**For Fiscal Year Ended June 30, 2008**

<u>Program Title/Project Number Subrecipient Name</u>	<u>CFDA Number</u>	<u>Approved Awards Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue at July 1, 2007</u>	<u>Federal Funds/ Payments In-Kind Received</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue at June 30, 2008</u>
U.S. Department of Agriculture Passed through Michigan Department of Education Food Distribution Entitlement Bonus	10.550	\$ 37,321 \$ - \$ -	-	(21,234) \$ -	42,549 \$ -	43,638 \$ -	(20,145) \$ -
081970 National School Lunch Breakfast	10.553	6,928	-	(21,234)	42,549	43,638	(20,145)
081960 National School Lunch Sec. 4 - All Lunches	10.555	39,121	-	-	6,928	6,928	-
081960 National School Lunch Sec. 11- Free & Reduced		56,695	-	-	6,928	6,928	-
			-	-	39,121	39,121	-
			-	-	56,695	56,695	-
			-	-	95,816	95,816	-
Total U.S. Department of Agriculture			-	(21,234)	145,293	146,382	(20,145)
U.S. Department of Education Passed through Michigan Department of Education 081190810657 - ABE - Instruction	84.002A	60,000	-	-	-	52,659	52,659
			-	-	-	52,659	52,659
0602500506 - Title V	84.298	1165	-	19	19	-	-
0702500607 - Title V		574	-	531	531	-	-
0802500708 - Title V		612	-	-	-	124	124
			-	550	550	124	124
0605200607 - Title II A	84.367	56,660	44,255	13,479	13,479	-	-
0805200708 - Title II A		110,887	-	-	-	58,878	58,878
			44,255	13,479	13,479	58,878	58,878
Total Passed Through Michigan Department of Education			44,255	14,029	14,029	111,661	111,661
Passed through Berrien Intermediate Schools/ Washtenaw Intermediate Schools							
064280 5D Title IID - Technology Literacy Challenge Grants	84.318	68,226	53,443	(14,783)	-	4,706	(10,077)
			53,443	(14,783)	-	4,706	(10,077)

**Chelsea School District**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For Fiscal Year Ended June 30, 2008**

<u>Program Title/Project Number Subrecipient Name</u>	<u>CFDA Number</u>	<u>Approved Awards Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue at July 1, 2007</u>	<u>Federal Funds/ Payments In-Kind Received</u>	<u>Expenditures</u>	<u>Accrued (Deferred) Revenue at June 30, 2008</u>
Passed through Traverse Bay Area ISD Title IID - Enhancing Education Through Technology	84.318	\$ 2,000	\$ -	\$ -	2,000	\$ -	(2,000)
			-	-	2,000	-	(2,000)
Passed through Washtenaw Intermediate Schools Special Education Cluster							
060450-0506 -Handicapped Programs IDEA Flow-through	84.027A	629,831	31,389	23,111	23,111	-	-
070450-0607 -Handicapped Programs IDEA Flow-through		568,054	524,134	142,976	142,976	-	-
080450-0708 -Handicapped Programs IDEA Flow-through		579,806	-	-	397,958	578,827	179,668
			555,523	166,087	564,045	578,827	179,668
070460-0607 IDEA Pre-school Grant							
080460-0708 IDEA Pre-school Grant	84.173A	8,636	-	-	-	-	-
		4,836	-	-	4,836	4,836	1,201
			-	-	4,836	4,836	1,201
071340190C Infants & Toddlers		15,043	-	2,976	2,976	-	-
081340190C Infants & Toddlers	84.181	15,043	-	-	5,375	15,043	9,668
			-	2,976	8,351	15,043	9,668
Total Special Education Cluster			555,523	169,063	577,232	598,706	190,537
Passed through Livingston Educational Service Agency							
0728600607 - Drug Free Schools	84.186A	5,356	3,600	3,600	3,600	1,746	1,746
0828600708 - Drug Free Schools		5,491	-	-	-	4,349	4,349
			3,600	3,600	3,600	6,095	6,095
Passed through Monroe Public Schools							
0705800607 - Title III Limited English		369	259	-	-	-	-
0805800708 - Title III Limited English		652	-	-	-	652	652
			259	-	-	652	652
Total U.S. Department of Education			657,080	171,909	596,861	721,820	296,868
<b>Total Federal Programs</b>		\$ 657,080	\$ 150,675	\$ 742,154	\$ 868,202	\$ 276,723	

**Chelsea School District**  
**Schedule of Expenditures of Federal Awards (Concluded)**  
**For Fiscal Year Ended June 30, 2008**

---

- 1 The accounting policies used in preparing this schedule conform to generally accepted accounting principles applicable to governments. The District utilized the modified accrual basis of accounting in preparing this schedule.
- 2 Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted to MDE.
- 3 The amounts reported on the R7120 (Grant Section Auditor's Report) reconcile with this schedule.
- 4 The amounts reported on the Recipient Entitlement Balance Report (PAL) agree with this schedule for USDA donated food commodities and are reported in the cash receipts column. Spoilage or pilferage, if any, is included in expenditures.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

October 16, 2008

Board of Education  
Chelsea School District  
Chelsea, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **CHELSEA SCHOOL DISTRICT** as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Chelsea School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. Our report did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Chelsea School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Chelsea School District, in a separate letter dated October 16, 2008.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

October 16, 2008

Board of Education  
Chelsea School District  
Chelsea, Michigan

**Compliance**

We have audited the compliance of **CHELSEA SCHOOL DISTRICT** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Chelsea School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Chelsea School District's management. Our responsibility is to express an opinion on Chelsea School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chelsea School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Chelsea School District's compliance with those requirements.

In our opinion, Chelsea School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.

## **Internal Control Over Compliance**

The management of Chelsea School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Chelsea School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style.



# CHELSEA SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2008

---

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes    X no

Significant deficiency (ies) identified  
not considered to be material weaknesses?

\_\_\_\_\_ yes    X none reported

Noncompliance material to financial statements  
noted?

\_\_\_\_\_ yes    X no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ yes    X no

Significant deficiency (ies) identified  
not considered to be material weaknesses?

\_\_\_\_\_ yes    X none reported

Type of auditors' report issued on compliance  
for major programs:

Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)?

\_\_\_\_\_ yes    X no

# **CHELSEA SCHOOL DISTRICT**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)**

**FOR THE YEAR ENDED JUNE 30, 2008**

---

### **SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

<b><u>CFDA Number(s)</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
84.027A / 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
---	------------------

Auditee qualified as low-risk auditee?	<u>  X  </u> yes <u>      </u> no
--	-----------------------------------

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

No matters were reported.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

### **SECTION IV – PRIOR YEAR FINDINGS**

No matters were reported.

\* \* \* \* \*



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**



October 16, 2008

To the Board of Education of the  
Chelsea School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *Chelsea School District* (the “District”) for the year ended June 30, 2008, and have issued our report thereon dated October 16, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated July 10, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District’s compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the District’s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District’s compliance with those requirements.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 17, 2008.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

We evaluated the key factors assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no difficulties, significant or otherwise, in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements identified during the audit.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 16, 2008.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the governing body and management of the Chelsea School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.

# **Chelsea School District**

## **Comments and Recommendations**

### **For the Year Ended June 30, 2008**

---

In planning and performing our audit of the financial statements of the Chelsea School District as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

#### **Other Matters**

##### **General Office Receipts**

Presently, in the general office receipts process, one individual receipts the money collected, posts the receipts into the general ledger system, prepares the deposit slip, and deposits the money to the bank. In order to enhance the internal controls in this area and provide for separation of duties, we recommend that another individual do a pre-list of checks and cash collected once the mail is opened, and that the pre-list be compared to the deposit slip copy from the bank.

## **Chelsea School District**

### **Comments and Recommendations (Concluded)**

**For the Year Ended June 30, 2008**

---

#### **Bank Reconciliation – Signature**

The District has a policy that reconciliation of all bank accounts is to be done by the Finance Coordinator and reviewed by the Executive Director of Business and Operations, which is being followed. In several instances, it was noted that the preparer does not always sign off on the completed bank reconciliations. We recommend that the preparer signs off on the bank reconciliations in order to provide a complete audit trail.

#### **Purchase Orders**

Certain test of transactions noted that several purchase orders were prepared after the date of the invoice from the vendor or contractor. In order to preserve the integrity of the purchasing system, we suggest that all purchases have purchase orders completed and approved before goods or services are ordered.

#### **Athletics and Community Enrichment – Cash Receipts**

Athletics and Community Enrichment cash receipts reconciliations are not always signed off on by the person doing the reconciliations. Also, all reconciliations should include the approval initials of someone independent of the individual doing the cash-out reconciliation form indicating that they have compared the deposit to the details underlying the deposit (the tally of tickets sold or the amounts included in the receipts sequence). These reconciliation forms should always include the initials of the preparer and the reviewer.

#### **Student Activity Accounts**

During testing it was noted that several disbursements from the Middle School Activity accounts were not approved by an advisor or activity sponsor. All disbursements appeared to be proper charges to the accounts. However, we suggest that all disbursements be approved by the advisor or sponsor of the student activity accounts.

## **Chelsea School District**

### **Comments and Recommendations (Concluded)**

**For the Year Ended June 30, 2008**

---

#### **Computer Passwords**

We understand that computer passwords at the network and financial accounting software level are not changed on a regular basis. In order to reduce the risk of access to computer files by unauthorized personnel, we recommend that the District institute a policy that requires passwords to be changed on a regular basis. For the size and complexity of Chelsea School District, once every six months would be adequate.

\* \* \* \* \*



FORM **SF-SAC**  
(8-6-2008)U.S. DEPT. OF COMM.— Econ. and Stat. Admin.— U.S. CENSUS BUREAU  
ACTING AS COLLECTING AGENT FOR  
OFFICE OF MANAGEMENT AND BUDGET**Data Collection Form for Reporting on  
AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS  
for Fiscal Year Ending Dates in 2008, 2009, or 2010**

▶ Complete this form, as required by OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations."

**PART 1****GENERAL INFORMATION (To be completed by auditee, except for Items 6, 7, and 8)**

<b>1.</b> Fiscal period ending date for this submission	<b>2.</b> Type of Circular A-133 audit	<b>3.</b> Audit period covered
Month    Day    Year <b>06    /    30    /    2008</b>	1 <input checked="" type="checkbox"/> Single audit 2 <input type="checkbox"/> Program-specific audit	1 <input checked="" type="checkbox"/> Annual    3 <input type="checkbox"/> Other — <input type="text"/> Months 2 <input type="checkbox"/> Biennial

**4. Auditee Identification Numbers****a.** Primary Employer Identification Number (EIN)**3 8** — **6 0 0 4 1 2 4****b.** Are multiple EINs covered in this report? 1 ☐ Yes    2 ☒ No**c.** If Part I, Item 4b = "Yes," complete Part I, Item 4c on the continuation sheet on Page 4.**d.** Data Universal Numbering System (DUNS) Number —  — **e.** Are multiple DUNS covered in this report? 1 ☐ Yes    2 ☒ No**f.** If Part I, Item 4e = "Yes," complete Part I, Item 4f on the continuation sheet on Page 4.**5. AUDITEE INFORMATION**

<b>a.</b> Auditee name	
CHELSEA SCHOOL DISTRICT	
<b>b.</b> Auditee address (Number and street)	
500 WASHINGTON ST.	
City	
CHELSEA	
State	ZIP + 4 Code
MI	4 8 1 1 8 —
<b>c.</b> Auditee contact	
Name	
TERESA ZIGMAN	
Title	
EXECUTIVE DIRECTOR OF BUSINESS AND OPER.	
<b>d.</b> Auditee contact telephone	
( 734 ) 433 — 2208	
<b>e.</b> Auditee contact FAX	
( 734 ) 433 — 2218	
<b>f.</b> Auditee contact E-mail	
TZIGMAN@GMAIL.CHELSEA.K12.MI.US	

**g. AUDITEE CERTIFICATION STATEMENT** — This is to certify that, to the best of my knowledge and belief, the auditee has: (1) engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, Items 1 and 3; (2) the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and, (3) the information included in **Parts I, II, and III** of this data collection form is accurate and complete. I declare that the foregoing is true and correct.

Auditee certification	Date
<b>ELECTRONICALLY CERTIFIED</b>	<b>11/11/2008</b>
Name of certifying official	
<b>TERESA A. ZIGMAN</b>	
Title of certifying official	
<b>EXECUTIVE DIRECTOR OF BUSINESS AND OPERATIONS</b>	

**6. PRIMARY AUDITOR INFORMATION  
(To be completed by auditor)**

<b>a.</b> Primary auditor name	
REHMANN ROBSON	
<b>b.</b> Primary auditor address (Number and street)	
675 ROBINSON RD.	
City	
JACKSON	
State	ZIP + 4 Code
MI	4 9 2 0 4 —
<b>c.</b> Primary auditor contact	
Name	
DAVID M. FISHER, CPA	
Title	
PRINCIPAL	
<b>d.</b> Primary auditor contact telephone	
( 517 ) 787 — 6503	
<b>e.</b> Primary auditor contact FAX	
( 517 ) 788 — 8111	
<b>f.</b> Primary auditor contact E-mail	
DAVE.FISHER@REHMANN.COM	

**g. AUDITOR STATEMENT** — The data elements and information included in this form are limited to those prescribed by OMB Circular A-133. The information included in Parts II and III of the form, except for Part III, Items 7, 8, and 9a-9f, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and **is not a substitute** for such reports. The auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133, which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

**7a. Add Secondary auditor information? (Optional)**1 ☐ Yes    2 ☒ No**b.** If "Yes," complete **Part I, Item 8** on the continuation sheet on page 5.

Auditor certification	Date
<b>ELECTRONICALLY CERTIFIED</b>	<b>11/11/2008</b>

**PART II****FINANCIAL STATEMENTS (To be completed by auditor)****1. Type of audit report**

Mark either: 1 ☒ Unqualified opinion **OR**  
any combination of: 2 ☐ Qualified opinion 3 ☐ Adverse opinion 4 ☐ Disclaimer of opinion

**2. Is a "going concern" explanatory paragraph included in the audit report?**1 ☐ Yes 2 ☒ No**3. Is a significant deficiency disclosed?**1 ☐ Yes 2 ☒ No – SKIP to Item 5**4. Is any significant deficiency reported as a material weakness?**1 ☐ Yes 2 ☐ No**5. Is a material noncompliance disclosed?**1 ☐ Yes 2 ☒ No**PART III****FEDERAL PROGRAMS (To be completed by auditor)****1. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending \$500,000 or more in Federal awards that have separate A-133 audits which are not included in this audit? (AICPA Audit Guide, Chapter 12)**1 ☐ Yes 2 ☒ No**2. What is the dollar threshold to distinguish Type A and Type B programs? (OMB Circular A-133 § .520(b))**

\$ 300,000

**3. Did the auditee qualify as a low-risk auditee? (§ .530)**1 ☒ Yes 2 ☐ No**4. Is a significant deficiency disclosed for any major program? (§ .510(a)(1))**1 ☐ Yes 2 ☒ No – SKIP to Item 6**5. Is any significant deficiency reported for any major program as a material weakness? (§ .510(a)(1))**1 ☐ Yes 2 ☐ No**6. Are any known questioned costs reported? (§ .510(a)(3) or (4))**1 ☐ Yes 2 ☒ No**7. Were Prior Audit Findings related to **direct** funding shown in the Summary Schedule of Prior Audit Findings? (§ .315(b))**1 ☐ Yes 2 ☒ No**8. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings shown in the Summary Schedule of Prior Audit Findings related to **direct** funding. (Mark (X) all that apply or None)**98 ☐ U.S. Agency for International Development10 ☐ Agriculture23 ☐ Appalachian Regional Commission11 ☐ Commerce94 ☐ Corporation for National and Community Service12 ☐ Defense84 ☐ Education81 ☐ Energy66 ☐ Environmental Protection Agency39 ☐ General Services Administration93 ☐ Health and Human Services97 ☐ Homeland Security14 ☐ Housing and Urban Development03 ☐ Institute of Museum and Library Services15 ☐ Interior16 ☐ Justice17 ☐ Labor09 ☐ Legal Services Corporation43 ☐ National Aeronautics and Space Administration59 ☐ National Archives and Records Administration05 ☐ National Endowment for the Arts06 ☐ National Endowment for the Humanities47 ☐ National Science Foundation07 ☐ Office of National Drug Control Policy59 ☐ Small Business Administration96 ☐ Social Security Administration19 ☐ U.S. Department of State20 ☐ Transportation21 ☐ Treasury64 ☐ Veterans Affairs00 ☒ None☐ Other – Specify:

**PART III FEDERAL PROGRAMS – Continued**

9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS				
Federal Agency Prefix <sup>1</sup>	CFDA Number	Research and development	Name of Federal program	Amount expended	Direct award	Major program	Type(s) of compliance requirement(s) <sup>4</sup>	Audit finding reference number(s) <sup>5</sup>
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(a)	(b)
1 0	.550	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ENTITLEMENT COMMODITIES	\$ 43,638.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1 0	.553	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL SCHOOL BREAKFAST	\$ 6,928.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
1 0	.555	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	NATIONAL SCHOOL LUNCH	\$ 95,816.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.002A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	ABE - INSTRUCTION	\$ 52,659.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.298	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE V	\$ 124.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.367	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE II, PART A	\$ 58,878.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.318	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE II, PART D	\$ 4,706.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
8 4	.027A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	SPECIAL EDUCATION CLUSTER	\$ 578,827.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	O	N/A
8 4	.173	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	PRESCHOOL INCENTIVE	\$ 4,836.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input checked="" type="checkbox"/> Yes 2 <input type="checkbox"/> No	O	N/A
8 4	.181	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	INFANTS & TODDLERS	\$ 15,043.00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	O	N/A
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				<b>\$ 868,202.00</b>				

<sup>1</sup> See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.<sup>2</sup> Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)<sup>3</sup> If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.<sup>4</sup> Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

A. Activities allowed or unallowed  
 B. Allowable costs/cost principles  
 C. Cash management  
 D. Davis – Bacon Act  
 E. Eligibility  
 F. Equipment and real property management  
 G. Matching, level of effort, earmarking  
 H. Period of availability of Federal funds  
 I. Procurement and suspension and debarment  
 J. Program income  
 K. Real property acquisition and relocation assistance  
 L. Reporting  
 M. Subrecipient monitoring  
 N. Special tests and provisions  
 O. None  
 P. Other

<sup>5</sup> N/A for NONE

PART III FEDERAL PROGRAMS - Continued				9. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR				10. AUDIT FINDINGS			
Federal Agency Prefix1 (a)	CFDA Number Extension 2 (b)	Research and development (c)	Name of Federal program (d)	Amount expended (e)	Direct award (f)	Major program (g)	If yes, type of audit report 3 (h)	Type(s) of compliance requirement(s) 4 (a)	Audit finding reference number(s) 5 (b)		
8 4	.186A	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	DRUG FREE SCHOOLS	\$ 6,095 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A		
8 4	.365	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	TITLE II	\$ 652 .00	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input checked="" type="checkbox"/> No		O	N/A		
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	<div style="font-size: 100px; text-align: center; line-height: 1;"> <div>ARCS</div> <div>WAFB</div> </div>	\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
		1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No		\$ .00	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No	1 <input type="checkbox"/> Yes 2 <input type="checkbox"/> No					
<b>TOTAL FEDERAL AWARDS EXPENDED</b>				\$ 868,202 .00							

1 See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.

2 Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available. (See Instructions)

3 If major program is marked "Yes," enter only one letter (U = Unqualified opinion, Q = Qualified opinion, A = Adverse opinion, D = Disclaimer of opinion) corresponding to the type of audit report in the adjacent box. If major program is marked "No," leave the type of audit report box blank.

4 Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, significant deficiency (including material weaknesses), questioned costs, fraud, and other items reported under § 510(a)) reported for each Federal program.

5 N/A for NONE

A. Activities allowed or unallowed

B. Allowable costs/cost principles

C. Cash management

D. Davis - Bacon Act

E. Eligibility

F. Equipment and real property management

G. Matching, level of effort, earmarking

H. Period of availability of Federal funds

I. Procurement and suspension and debarment

J. Program income

K. Real property acquisition and relocation assistance

L. Reporting

M. Subrecipient monitoring

N. Special tests and provisions

O. None

P. Other



**PART I GENERAL INFORMATION - Continued**

**8.** Part I, Item 8, Secondary Auditor's Contact Information. (List the Secondary Auditor's Contact information)

<b>1. a.</b> Secondary Auditor name <b>N / A</b>		<b>2. a.</b> Secondary Auditor name		<b>3. a.</b> Secondary Auditor name	
<b>b.</b> Secondary Auditor address (Number and street)		<b>b.</b> Secondary Auditor address (Number and street)		<b>b.</b> Secondary Auditor address (Number and street)	
City		City		City	
State ZIP + 4 Code		State ZIP + 4 Code		State ZIP + 4 Code	
<b>c.</b> Secondary Auditor contact Name Title		<b>c.</b> Secondary Auditor contact Name Title		<b>c.</b> Secondary Auditor contact Name Title	
<b>d.</b> Secondary Auditor contact telephone		<b>d.</b> Secondary Auditor contact telephone		<b>d.</b> Secondary Auditor contact telephone	
<b>e.</b> Secondary Auditor contact FAX		<b>e.</b> Secondary Auditor contact FAX		<b>e.</b> Secondary Auditor contact FAX	
<b>f.</b> Secondary Auditor contact E-mail		<b>f.</b> Secondary Auditor contact E-mail		<b>f.</b> Secondary Auditor contact E-mail	
<b>4. a.</b> Secondary Auditor name		<b>5. a.</b> Secondary Auditor name		<b>6. a.</b> Secondary Auditor name	
<b>b.</b> Secondary Auditor address (Number and street)		<b>b.</b> Secondary Auditor address (Number and street)		<b>b.</b> Secondary Auditor address (Number and street)	
City		City		City	
State ZIP + 4 Code		State ZIP + 4 Code		State ZIP + 4 Code	
<b>c.</b> Secondary Auditor contact Name		<b>c.</b> Secondary Auditor contact Name		<b>c.</b> Secondary Auditor contact Name	
Title		Title		Title	
<b>d.</b> Secondary Auditor contact telephone		<b>d.</b> Secondary Auditor contact telephone		<b>d.</b> Secondary Auditor contact telephone	
<b>e.</b> Secondary Auditor contact FAX		<b>e.</b> Secondary Auditor contact FAX		<b>e.</b> Secondary Auditor contact FAX	
<b>f.</b> Secondary Auditor contact E-mail		<b>f.</b> Secondary Auditor contact E-mail		<b>f.</b> Secondary Auditor contact E-mail	